

Auditor-General of South Africa

Nongoma Municipality
Audit report 2017-18

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Nongoma Municipality

Report on the audit of the financial statements

Adverse opinion

1. I have audited the financial statements of the Nongoma Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, because of the significance of the matters described in the basis for adverse opinion section of this auditor's report, the financial statements do not present fairly, in all material respects, the financial position of the Nongoma Municipality as at 30 June 2018, and its financial performance and its cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (Dora).

Basis for adverse opinion

Unauthorised expenditure

3. I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of unauthorised expenditure, as the supporting information was not provided. I was unable to confirm the opening balance by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the unauthorised expenditure stated at R249 million in the financial statements.

Irregular expenditure

4. The municipality did not include all irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. Additionally, supporting information for amounts disclosed as irregular expenditure in the current year was not provided. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure stated at R66,5 million in note 41 to the financial statements.

Commitments

5. The municipality did not properly account for commitments as required by SA Standards of GRAP 17 *Property, plant and equipment* due to inadequate systems and processes to account for this disclosure. I was unable to determine the full extent of the misstatement as it was impractical to do so. Consequently, I was unable to determine whether any further adjustments were necessary to commitments related to authorised capital expenditure disclosed in note 46 to the financial statements.
6. The municipality did not account for operating lease commitments as required by GRAP 13 *Leases*. Additionally, amounts related to the prior year were restated without the appropriate disclosure in terms GRAP 3, *Accounting policies, estimates and errors*. Consequently,

operating lease commitments for the current year and prior year were misstated by R3,14 million (overstatement) and R1 million (understatement) respectively.

Property, plant and equipment

7. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. A donation of a sports field was not recognised at fair value on acquisition. Additionally, the acquisition was incorrectly disclosed as revenue from exchange transactions instead of revenue from non-exchange transactions. Consequently, I was unable to determine whether any further adjustments were necessary to property, plant and equipment, revenue from exchange transactions as well as revenue from non-exchange transactions stated at R361,85 million, R23,01 million and R210,67 million respectively in the financial statements.

Operational costs

8. Included in operational costs is an amount of R2,05 million relating to indigent relief for free basic electricity. I was unable to obtain sufficient appropriate audit evidence for this amount as the municipality did not maintain a register of indigent debtors. I was unable to confirm this amount by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amount disclosed as indigent relief for free basic electricity in the financial statements.

Consumer debtors

9. I was unable to obtain sufficient appropriate audit evidence to confirm the impairment of consumer debtors as sufficient appropriate audit evidence was not provided. I was unable to confirm this impairment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the impairment of consumer debtors stated at R17,15 million in the financial statements.

Operational revenue

10. Included in operational revenue is an amount of R10,41 million relating to the write-off of accounts payables. I was unable to obtain sufficient appropriate audit evidence for this amount due to the status of accounting records. I was unable to confirm this by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amount disclosed as write-off of accounts payables in the financial statements.

Payables from exchange transaction

11. The municipality did not recognise all retention amounts meeting the definition of a liability in accordance with GRAP 19, *Provisions, contingent liabilities and contingent assets* due to the status of the accounting records. I was unable to confirm the payables by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to payables from exchange transactions stated at R16,79 million in the financial statements.

MFMA additional disclosures

12. The municipality did not correctly disclose the total amounts paid in taxes, levies, pension as well as medical aid contributions as required by section 125(1)(c) of the MFMA due to the status of the accounting records. Consequently, skills development levy, PAYE as well as pension and medical aid deductions were misstated by R21 651, R176 997 and R2,58 million, respectively.

Context for the opinion

13. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
14. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
15. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

Emphasis of matter

16. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Restatement of corresponding figures

17. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of errors/reclassifications in the financial statements of the municipality at, and for the year ended, 30 June 2018.

Other matters

18. I draw attention to the matters below.

Unaudited supplementary schedules

19. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules, and accordingly, I do not express an opinion thereon.

Unaudited disclosure note

20. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of accounting officer for the financial statements

21. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA, DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.
22. In preparing the financial statements, the accounting officer is responsible for assessing the Nongoma Municipality's ability to continue as a going concern, disclosing, as applicable,

matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

23. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
24. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

25. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for the selected development priority presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
26. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
27. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for development priority 2 – basic service delivery and infrastructure presented on pages xx to xx of the annual performance report of the municipality for the year ended 30 June 2018.
28. I did not raise any material findings on the usefulness and reliability of the reported performance information for this development priority.

Other matters

29. I draw attention to the matter below.

Adjustment of material misstatements

30. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the basic service delivery and infrastructure development priority. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

31. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
32. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

33. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving an adverse audit opinion.

Expenditure management

34. Reasonable steps were not taken to prevent unauthorised expenditure, as disclosed in note 39 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.
35. Reasonable steps were not taken to prevent irregular expenditure, as disclosed in note 41 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance relating to the application of the preference points system and obtaining of quotations.
36. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R2,06 million, as disclosed in note 40 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

Consequence management and financial misconduct

37. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
38. The irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

39. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Procurement and contract management

40. Some quotes were accepted from bidders who did not submit a declaration on whether they were employed by the state or connected to any person employed by the state, as required by municipal supply chain management (SCM) regulation 13(c). Similar non-compliance was also reported in the prior year.
41. Some awards were made to providers who were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of SCM processes, as required by SCM regulation 38(1).
42. Some of the bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).

Revenue

43. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Human resource management

44. Appropriate systems and procedures to monitor, measure and evaluate performance of staff below the level of senior management, were not developed and adopted, as required by section 67(1)(d) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000).

Other information

45. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected development priority presented in the annual performance report that have been specifically reported in this auditor's report.
46. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
47. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
48. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract

this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

- 49. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
- 50. Leadership did not adequately oversee financial reporting and compliance with legislation. In this regard leadership did not ensure that effective measures were taken to prepare annual financial statements that were free from material misstatements.
- 51. Senior management did not implement proper records management over the maintenance of documents supporting financial reporting. Municipal staff did not fully understand or comply with the requirements of the applicable legislation, which contributed to the material findings on compliance with legislation.

Other reports

- 52. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
- 53. The department of Cooperative Governance and Traditional Affairs (CoGTA) appointed an independent consulting firm to conduct an investigation covering the period 1 May 2011 to 30 June 2013. The investigation relates to allegations of misappropriation of municipal assets and cash, contravention of SCM regulations and policies, irregularities in human resources management, payments for goods and services not received as well as the abuse of subsistence and travel allowances and overtime payments. The investigation was finalised, the report was presented to the MEC for CoGTA and was also tabled before council. A disciplinary enquiry against three senior municipal officials had been finalised.

Auditor-General

PIETERMARITZBURG

30 November 2018



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Nongoma Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

